

Meeting of the Federal Open Market Committee

November 4-5, 1985

Minutes of Actions

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Monday, November 4, 1985, at 3:00 p.m. and continuing on Tuesday, November 5, 1985, at 9:30 a.m.

PRESENT: Mr. Volcker, Chairman
Mr. Corrigan, Vice Chairman
Mr. Balles
Mr. Black
Mr. Forrestal
Mr. Keehn
Mr. Martin
Mr. Partee
Mr. Rice
Ms. Seger

Mr. Guffey, Mrs. Horn, Messrs. Melzer and Morris, Alternate Members of the Federal Open Market Committee

Messrs. Boehne, Boykin, and Stern, Presidents of the Federal Reserve Banks of Philadelphia, Dallas, and Minneapolis, respectively

Mr. Axilrod, Staff Director and Secretary
Mr. Bernard, Assistant Secretary
Mrs. Steele, Deputy Assistant Secretary
Mr. Bradfield. 1/ General Counsel
Mr. Kichline, Economist
Mr. Truman, Economist (International)

Messrs. Broaddus, Kohn, Lindsey, Prell, Scheld, Siegman, and Ms. Tschinkel, Associate Economists

Mr. Sternlight, Manager for Domestic Operations,
System Open Market Account
Mr. Cross, Manager for Foreign Operations,
System Open Market Account

1/ Entered meeting after action to approve minutes of meeting held on October 1, 1985.

Mr. Coyne, 1/ Assistant to the Board of Governors
Mr. Roberts, 2/ Assistant to the Chairman, Board of Governors
Mr. Promisel, 3/ Senior Associate Director, Division of
International Finance, Board of Governors
Mr. Slifman, 3/ Deputy Associate Director, Division of Research
and Statistics, Board of Governors
Mr. Gemmill, 2/ Staff Adviser, Division of International
Finance, Board of Governors
Mr. Hooper, 3/ Assistant Director, Division of International
Finance, Board of Governors
Mr. Stockton, 3/ Economist, Division of Research and
Statistics, Board of Governors
Mrs. Low, Open Market Secretariat Assistant,
Board of Governors

Mr. Fousek, Executive Vice President, Federal Reserve
Bank of New York

Messrs. Balbach, J. Davis, T. Davis, Lang, Ms. Munnell,
Messrs. Rolnick and Rosenblum, Senior Vice Presidents,
Federal Reserve Banks of St. Louis, Cleveland,
Kansas City, Philadelphia, Boston, Minneapolis, and
Dallas, respectively

Mr. Judd, Vice President, Federal Reserve Bank of
San Francisco

Ms. Walter, Adviser, Open Market Operations,
Federal Reserve Bank of New York

By unanimous vote, the minutes of actions taken at the meeting of
the Federal Open Market Committee held on October 1, 1985, were approved.

By unanimous vote, System open market transactions in foreign
currencies during the period October 1, 1985, through November 4, 1985,
were ratified.

By unanimous vote, the Committee authorized the renewal for further
periods of one year of the System's reciprocal currency ("swap") arrangements
having the amounts and maturity dates indicated below:

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- 1/ Entered meeting after action to approve minutes of meeting held on
October 1, 1985.
2/ Attended Tuesday session only.
3/ Attended Monday session only.

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Foreign bank	Amount of arrangement (millions of \$ equivalent)	Term (months)	Maturity date
Austrian National Bank	\$ 250.0	12 mos.	12/ 3/85
National Bank of Belgium	1,000.0	"	12/17/85
Bank of Canada	2,000.0	"	12/28/85
National Bank of Denmark	250.0	"	12/28/85
Bank of England	3,000.0	"	12/ 3/85
Bank of France	2,000.0	"	12/28/85
German Federal Bank	6,000.0	"	12/28/85
Bank of Italy	3,000.0	"	12/28/85
Bank of Japan	5,000.0	"	12/ 3/85
Bank of Mexico	700.0	"	12/ 3/85
Netherlands Bank	500.0	"	12/28/85
Bank of Norway	250.0	"	12/ 3/85
Bank of Sweden	300.0	"	12/ 3/85
Swiss National Bank	4,000.0	"	12/ 3/85
Bank for International Settlements--			
Swiss francs	600.0	"	12/ 3/85
Other authorized European currencies	1,250.0	"	12/ 3/85

By unanimous vote, System open market transactions in Government securities and agency obligations during the period October 1, 1985, through November 4, 1985, were ratified.

With Ms. Seger dissenting, the Federal Reserve Bank of New York was authorized and directed, until otherwise directed by the Committee, to execute transactions in the System Account in accordance with the following domestic policy directive:

The information reviewed at this meeting suggests that economic activity is continuing to expand at a relatively modest pace. In September, total retail sales rose considerably further, but the gain was boosted by a temporary surge in auto sales that was reversed in October. Total nonfarm payroll employment increased considerably in October, following a much

slower advance in September, and the civilian unemployment rate was unchanged at 7.1 percent. In recent months industrial production has increased only slightly on balance. Housing starts fell in September, but sales of new and existing homes remained at a relatively high level on average. Incoming information generally suggests a leveling of business capital spending. Merchandise trade data for the third quarter indicate that the deficit widened slightly, as imports continued to increase. Broad measures of prices and wages appear to be rising at rates close to or somewhat below those recorded earlier in the year.

M1 appears to have shown little net change in October following several months of rapid expansion. Largely reflecting the weakness in M1, growth in M2 and M3 apparently was quite moderate in October. Expansion in total domestic nonfinancial debt has remained relatively rapid. Most short-term market interest rates have changed little on balance since the October 1 meeting of the Committee, while long-term rates have declined somewhat. The trade-weighted value of the dollar against major foreign currencies has dropped slightly further on balance since October 1, following a substantial decline after the September 22 meeting of the Finance Ministers and Central Bank Governors of the G-5 countries.

The Federal Open Market Committee seeks to foster monetary and financial conditions that will help to reduce inflation further, promote growth in output on a sustainable basis, and contribute to an improved pattern of international transactions. In furtherance of these objectives the Committee at the July meeting reaffirmed ranges for the year of 6 to 9 percent for M2 and 6 to 9-1/2 percent for M3. The associated range for total domestic nonfinancial debt was reaffirmed at 9 to 12 percent. With respect to M1, the base was moved forward to the second quarter of 1985 and a range was established at an annual growth rate of 3 to 8 percent. The range takes account of expectations of a return of velocity growth toward more usual patterns, following the sharp decline in velocity during the first half of the year, while also recognizing a higher degree of uncertainty regarding that behavior. The appropriateness of the new range will continue to be reexamined in the light

of evidence with respect to economic and financial developments including developments in foreign exchange markets. More generally, the Committee agreed that growth in the aggregates may be in the upper parts of their ranges, depending on continuing developments with respect to velocity and provided that inflationary pressures remain subdued.

For 1986 the Committee agreed on tentative ranges of monetary growth, measured from the fourth quarter of 1985 to the fourth quarter of 1986, of 4 to 7 percent for M1, 6 to 9 percent for M2, and 6 to 9 percent for M3. The associated range for growth in total domestic non-financial debt was provisionally set at 8 to 11 percent for 1986. With respect to M1 particularly, the Committee recognized that uncertainties surrounding recent behavior of velocity would require careful reappraisal of the target range at the beginning of 1986. Moreover, in establishing ranges for next year, the Committee also recognized that account would need to be taken of experience with institutional and depository behavior in response to the completion of deposit rate deregulation early in the year.

In the implementation of policy for the immediate future, the Committee seeks generally to maintain about the existing degree of pressure on reserve positions. This action is expected to be consistent with growth in M2 and M3 over the period from September to December at annual rates of about 6 percent. M1 growth over the period at an annual rate of around 6 percent is also anticipated; slower growth for that aggregate would be acceptable in the context of satisfactory economic performance, given the very rapid growth in M1 over the summer. Somewhat greater reserve restraint might, and somewhat lesser reserve restraint would, be acceptable depending on behavior of the aggregates, taking account of appraisals of the strength of the business expansion, developments in foreign exchange markets, progress against inflation, and conditions in domestic and international credit markets. The Chairman may call for Committee consultation if it appears to the Manager for Domestic Operations that reserve conditions during the period before the next meeting are likely to be associated with a federal funds rate persistently outside a range of 6 to 10 percent.

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It was agreed that the next meeting of the Committee would be held on December 17, 1985.

The meeting adjourned.

Secretary

Secretary's Note: On December 9, 1985, the Committee approved an increase of \$1 billion, to \$7 billion, in the intermeeting limit on changes in System holdings of U.S. government and federal agency securities specified in paragraph 1(a) of the Authorization for Domestic Open Market Operations. The action was effective immediately, for the period ending December 17, 1985.

Votes for this action: Messrs. Volcker, Balles, Black, Forrestal, Keehn, Martin, Partee, Rice, Ms. Seger, and Mr. Timlen. Votes against this action: None. Absent and not voting: Messrs. Corrigan and Wallich. (Mr. Timlen votes as alternate for Mr. Corrigan.)